

5-0300.00 EXPENDITURES AND PAYABLES

5-0310.00 INTRODUCTION

5-0310.10 DEFINITIONS

"Accrual" is the process of recording an expenditure in the accounting period in which a liability has been incurred, regardless of whether cash has been paid out. Accrual results in an entry to "Expenditures" and usually creates a corresponding payable (liability) on the books.

"Accrued Expenditures" are expenditures recorded in the accrual process. The liability recorded for the accrual will normally be paid in the next fiscal year.

5-0310.20 BASIC ACCOUNTING PROCEDURES

GAAP requires that an expenditure be recorded in the accounting period in which the liability is incurred. Generally, a liability is incurred when goods or services are received.

School districts may keep their accounting records on a cash basis during the year, that is, record expenditures only when cash is disbursed. However, appropriate entries must be recorded at fiscal year-end to adjust expenditures to the modified accrual basis.

5-0310.30 IDENTIFYING EXPENDITURES FOR ACCRUAL

At fiscal year-end, the district must **analyze** expenditures incurred but unpaid as of June 30. Examples of expenditures which may require accrual are discussed in section 5-0330.00, "COMMON EXPENDITURE ACCRUALS." Also see section 5-1600, "LIST OF RECEIVABLES AND PAYABLES."

Usually, the district will receive bills or invoices during July for goods and services received by June 30. The amount to record as an expenditure and liability will be evident from the bills or invoices. If the exact amount is unknown, the district should estimate the cost of expenditures to accrue. If the cost is estimated, the basis of the estimate must be logical and well-documented. For example, unbilled charges for June utilities may be recorded as expenditures based on a reasonable estimate using prior years' June bills.

The district should accrue all unpaid items which are liabilities of the district at June 30, unless the items are insignificant in amount. To reduce the amount of paperwork associated with accruals, districts may consider not accruing items less than one hundred (\$100) dollars, unless a number of items from the same vendor totals over \$100 or the sum of several liabilities are significant. Accrual of items under \$100 is not prohibited, however.

Accounting procedures for common expenditure accruals are explained in section 5-0330.00. Accounting procedures for expenditure accruals in general are shown in section 5-0320.00, "RECORDING EXPENDITURE ACCRUALS."

5-0310.40 DOCUMENTING EXPENDITURE ACCRUALS

The district must submit a list of fiscal year-end expenditure accruals and encumbrances by fund to the county treasurer no later than August 1st each year. A list of accruals and supporting documentation must be retained at the district level for control and auditing purposes. The county treasurer may also request the district to provide a list of subsequent payments of year-end accruals.

5-0320.00 RECORDING EXPENDITURE ACCRUALS

Entries shown in this section provide a simple method for recording expenditure accruals and payments. This method assumes the district records expenditures during the year when writing warrants, records expenditure accruals at fiscal year-end, then reduces the liability when paying for the items in the next year.

The district may use an alternative method of accounting for accruals if the method produces the same result at fiscal year-end as the method presented in this section.

The entries in this section demonstrate the use of the balance sheet account 802 Expenditures (control or summary) account, which is not required. Whenever the district posts an entry to the 802 Expenditures account, the entry must also be posted in the Expenditures Subsidiary Ledger to record the details of expenditures by fund, program, function, expenditure object, and project reporter if necessary. The entry in the subsidiary ledger charges the expenditure to the budget line item. Districts which do not use the Expenditure control account will post expenditures directly to the budget line item.

To accrue expenditures at fiscal year-end:

Debit: 802	Expenditures	\$2000
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Credit: 601 thru 690	(a current liability account)	\$2000
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Expenditures Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate expenditure object	\$2000
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(To record the cost of goods or services received but not paid for by June 30. The current liability account used depends on the type of expenditure. Review the chart of accounts and definitions for the appropriate liability account.)

To record payment on the liability in the next year:

Debit: 601 thru 690	(a current liability account)	\$2000
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Credit: 620 or 101	Warrants Payable or Cash	\$2000
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(To record the warrant issued to pay for accrued obligations. The liability account debited in this entry **must be the same** liability account credited in the accrual entry shown above.)

In some instances the payment for the expenditure accrual will not equal the amount accrued. See section 5-0340.00, "RECORDING DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS."

5-0330.00 COMMON EXPENDITURE ACCRUALS

5-0330.10 SALARIES AND BENEFITS

Generally, expenditures for payroll and employee benefits should be recorded in the year in which the employee provides the service. **Salaries and benefits for work performed by employees prior to June 30 but not paid by June 30 must be recorded as expenditures and liabilities.**

For example, if a teacher's salary for the ten month school year is paid on a twelve month contract, the district should record expenditures and a liability at June 30 for the July and August salaries. If a year-round employee's June salary has not been paid by June 30, the district should record the applicable expenditure and liability. However, if teachers are on ten month contracts and all salaries for services received during those ten months have been paid and all other June payroll has been paid as of June 30, no salary or benefit accrual is needed.

The expenditure amount recorded as of June 30 should include all applicable employer payroll costs. For example, the expenditure recorded for accrued salaries and benefits payable should include the employer's share of employee benefits such as FICA, TRS and PERS retirement contributions.

To accrue payroll and benefit liabilities at fiscal year end: Record the liability in each fund used to pay employee payroll and benefits.

Debit: 802	Expenditures	\$40,000
Credit: 661	Salaries and Benefits Payable	\$40,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-1XX through 2XX Personnel Services-Salaries and		
	Personnel Services-Benefits	\$40,000 (would be broken down into various expenditure accounts)

(To record expenditures and liability at fiscal year-end for salaries and the employers' share of benefits such as FICA, TRS, PERS, etc.)

To record the payment of salaries and employer contributions to FICA, TRS, PERS, etc. in July and August in the next fiscal year:

Debit: 661	Salaries and Benefits Payable	\$40,000
Credit: 620 or 101	Warrants Payable or Cash	\$40,000

(To record the payment of salaries and the employer's share of benefits for liabilities accrued at the prior fiscal year-end. This entry reduces the liability account.)

5-0330.20 HEALTH INSURANCE PREMIUMS

The cost of health insurance premiums to be paid in July and August of the next fiscal year should be recorded as an expenditure for the current year if coverage is part of a contract for the school year ended June 30.

To accrue the July and August health insurance premium liability at fiscal year-end:

Debit: 802	Expenditures	\$ 5,000
Credit: 661	Accrued Salaries and Benefits	\$ 5,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-260	Health Insurance	\$ 5,000

(To record the expenditure and liability for health insurance premiums to be paid July and August. Insurance costs which are not part of a personnel contract for the fiscal year ended June 30 should not be accrued.)

To record the payment for the premium liability in July and August of the next fiscal year:

Debit: 661	Accrued Salaries and Benefits	\$ 5,000
Credit: 620 or 101	Warrants Payable or Cash	\$ 5,000

(To record the payment of health insurance premiums for which costs were recorded as an expenditure and liability at fiscal year-end. This entry reduces the liability account.)

5-0330.30 WORKERS' COMPENSATION PREMIUMS

Workers' Compensation premiums and payroll taxes applicable to the current year's actual payout of salaries and benefits should be recorded as expenditures. The amount to accrue for premiums due for the half-year ended June 30 and payroll taxes for the quarter ended June 30 may be determined by calling the Workers' Compensation Division or by using the worksheet shown in section 5-1710.00, "EXAMPLE OF WORKERS' COMPENSATION ACCRUAL WORKSHEET."

To record the Workers' Compensation premium and payroll taxes liability at fiscal year-end:

Assume the total of the premium on the January-June salaries and the payroll taxes for the quarter ended June 30 were calculated as \$2300.

Debit: 802	Expenditures	\$2,300
Credit: 661	Salaries and Benefits Payable	\$2,300
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-250	Workers' Compensation	\$2,300

(To record the Workers' Compensation Premium for the half-year ended June 30 and the payroll tax for the quarter ended June 30.)

To record the payment of the accrued premium and payroll tax liability premium in the next fiscal year:

Debit: 661	Salaries and Benefits Payable	\$2,300
Credit: 620 or 101	Warrants Payable or Cash	\$2,300

(To record payment for Workers' Compensation premiums for the half-year ended June 30 and payroll taxes for the quarter ended June 30. If the actual premium paid differs slightly from the amount accrued, charge the difference to current expenditures in the year paid.)

5-0330.40 COMPENSATED ABSENCES

Compensated absences are benefits such as vacation and sick leave pay. In governmental funds, vacation and sick leave pay **should be recorded as expenditures in the year the employee uses the leave or terminates employment**. The accumulated liability for compensated absences is considered a long-term liability which should be recorded in the Long-Term Debt Account Group instead of the specific fund. See "COMPENSATED ABSENCES," section 5-1350.00.

5-0330.50 JUNE UTILITY AND PHONE BILLS

Generally, costs for services must be recorded as expenditures in the year in which the service is received.

June phone and utility charges should be recorded as expenditures for the current year. If the bill arrives in July, the amount of the accrual will be the actual cost. If the bill does not arrive in time, the district should estimate the charges based on prior experience or another reasonable basis and accrue that amount. The basis for the estimate should be documented for an audit trail.

If the billing period includes charges for June and July on one bill, prorate the charges between fiscal years. An immaterial portion (less than \$100) attributable to a fiscal year may be charged to the other fiscal year. For example, if June charges are \$30 and July charges are \$750, June charges may be charged as expenditures when the bill is paid in the next fiscal year.

At fiscal year-end to accrue the expenditures for June utilities/phone charges:

Debit: 802	Expenditures	\$1000
Credit: 621	Accounts Payable	\$1000

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-XXX	Any appropriate object	\$1000
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(To record the expenditure and liability for June utilities and phone charges which will be paid in the next fiscal year.)

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1000
Credit: 620 or 101	Warrants Payable or Cash	\$1000

(To record payment of June utility and phone charges which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.60 EQUIPMENT PURCHASES

Generally, costs of equipment must be recorded as expenditures in the year in which the equipment is received.

For minor equipment items (usually less than \$300, not to be recorded as fixed assets in the accounting records) received but not paid for by June 30:

Debit: 802	Expenditures	\$ 150
Credit: 621	Accounts Payable	\$ 150

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-660 or 670	Minor Equipment	\$ 150
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(To accrue the liability and expenditure for minor equipment.)

5-0330.60 EQUIPMENT PURCHASES (Cont'd)

For equipment items which are to be included as fixed assets in the accounting records (usually over \$300), the entry would be the same as shown above except that the expenditure would be charged to expenditure objects 700 through 749. See section 5-1200, "FIXED ASSETS."

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1000
Credit: 620 or 101	Warrants Payable or Cash	\$1000

(To record payment of equipment purchases which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.70 MATERIALS AND SUPPLIES

Generally, costs of materials and supplies must be expensed either in the year received ("purchases method") or as used ("consumption method"). See section 5-0600, "SUPPLIES." The district may choose either method but **must apply the chosen method consistently from year to year.**

To accrue the costs of materials and supplies received but not paid for by June 30 (Purchases Method):

Debit: 802	Expenditures	\$1700
Credit: 621	Accounts Payable	\$1700
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-610	Any appropriate expenditure object	\$1700

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1000
Credit: 620 or 101	Warrants Payable or Cash	\$1000

(To record payment of supply and material purchases which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0330.80 CREDIT CARD INVOICES

Generally, credit card charges must be recorded as expenditures in the year the charged goods and services were received. If the district has not paid the bill by June 30, charges should be recorded as expenditures and a payable at fiscal year-end. If the bill has not been received in time to accrue the exact amount of the bill, estimate the charges based on credit card receipt slips.

To accrue expenditures for credit card charges not paid by June 30: For example, assume the credit card bill for \$1200 in motel and meal charges for a team trip in June has not been paid by June 30.

Debit: 802	Expenditures	\$1200
Credit: 621	Accounts Payable	\$1200
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-582	Out-of-District Travel	\$1200

(To accrue expenditures for credit card charges not paid by June 30. Notice that expenditures would be charged to appropriate expenditure accounts when the credit card bill is paid.)

5-0330.80 CREDIT CARD INVOICES (Cont'd)

To record the payment in the next fiscal year:

Debit: 621	Accounts Payable	\$1000
Credit: 620 or 101	Warrants Payable or Cash	\$1000

(To record payment of credit card charges which were recorded as expenditures and payables at fiscal year-end. This entry reduces the liability account.)

5-0340.00 RECORDING DIFFERENCES BETWEEN ACCRUAL AND PAYMENT AMOUNTS

In some cases, the amount paid in year 2 will differ from the amount accrued in year 1. For example, if an invoice for \$250 was incorrectly accrued as \$300, the actual amount payable is \$50 less than the liability recorded. If the cost for unbilled June phone charges was estimated and recorded as an expenditure for \$50 and the June bill received later was \$100, the amount payable would be \$50 higher than the liability recorded. The procedure used to record the difference depends on the relative size of the difference.

5-0340.10 IMMATERIAL OVER AND UNDER ACCRUALS

Small or "immaterial" differences are recorded as adjustments to current revenues and expenditures.

If the payment in year 2 is greater than the amount accrued in year 1 (under accrual): For example, assume the amount accrued was \$245 charged to object 610-Supplies and the invoice amount is \$250.

Debit: 621	Accounts Payable	\$245
Debit: 802	Expenditures	\$ 5
Credit: 620 or 101	Warrants Payable or Cash	\$250

Expenditures Subsidiary Ledger
XXX-XXX-XXX-610 Supplies (The same object to which the
accrual was charged at the previous year-end) \$ 5

(To record payment of accrued expenditures. The debit to the current liability account must equal the amount originally accrued in year 1. The credit to warrants payable or cash equals the amount of the invoice. The difference is debited to current year 2 expenditures. DO NOT USE EXPENDITURE OBJECT 892-PRIOR PERIOD EXPENDITURES, WHICH IS FOR LARGE/MATERIAL DIFFERENCES ONLY. SEE SECTION 5-0340.30 FOR INSTRUCTIONS ON USE OF THAT OBJECT.)

If the payment in year 2 is less than the amount accrued in year 1 (over accrual): For example, assume the amount accrued was \$365 charged to object 250-Workers' Compensation and the invoice amount is \$350.

Debit: 661	Accrued Salaries and Benefits Payable	\$365
Credit: 402	Revenues	\$ 15
Credit: 620 or 101	Warrants Payable or Cash	\$350

Revenue Subsidiary Ledger
XXX-1900 Other/Miscellaneous Revenue \$ 15

(To record payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in year 1. The credit to warrants payable or cash equals the amount of the invoice. The difference is credited to current year 2 revenues.)

5-0340.20 MATERIAL OVER AND UNDER ACCRUALS

Rarely will the difference between the amount accrued and the amount paid be significantly large in relation to the total fund balance of the affected fund. However, if the difference is material, GAAP requires it to be reported on financial statements as an adjustment to beginning fund balance.

What amount is considered "material" is somewhat discretionary and depends on the amount of fund balance and other components shown on the financial statements. As a general rule, when the difference is 5% or more of the anticipated ending fund balance of the affected fund, the district should consider whether the item is a material adjustment required to be recorded as a prior period adjustment. Contact your auditor or OPI for advice if needed.

A material difference between the expenditure amount accrued and the actual amount paid in the next year should be recorded in the year of payment either as expenditure code 892 Prior Period Expenditure Adjustments (accrued too little) or as revenue source 6100 Material Prior Period Revenue Adjustments (accrued too much). Charges to 892 must be within the fund's total budget limit, according to A.R.M. 10.10.305.

When the invoice paid in year 2 is materially greater than the amount accrued in year 1 (material under accrual): For example, assume the amount incorrectly accrued for computer equipment was \$1000 and the invoice is \$10,000.

Debit: 601 thru 690	(liability account used in year 1)	\$ 1,000
Debit: 802	Expenditures	\$ 9,000
Credit: 620 or 101	Warrants Payable or Cash	\$10,000

Expenditures Subsidiary Ledger

XXX-XXX-XXXX-892	Prior Period Expenditure Adjustments	\$ 9,000
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(To record a warrant issued for payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in the previous year. The credit to warrants payable or cash equals the amount of the invoice. The difference is debited to 892.)

On the annual Trustees' Financial Summary submitted to OPI and on financial statements prepared in accordance with GAAP, the district would report the balance of expenditure object 892 as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current expenditures reported for the fund.

When the invoice paid in year 2 is materially less than the amount accrued in year 1 (material over accrual): For example, assume the amount accrued for a computer system was \$40,000, but the invoice is \$25,000.

Debit: 601 thru 690	(liability account used in year 1)	\$40,000
Credit: 402	Revenue	\$15,000
Credit: 620 or 101	Warrants Payable or Cash	\$25,000

Revenue Subsidiary Ledger

XXX-6100	Prior Period Revenue Adjustments	\$15,000
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(To record payment of accrued expenditures. The debit to the liability account must equal the amount originally accrued in the previous year. The credit to warrants payable or cash equals the amount of the invoice. The difference is credited to 6100.)

5-0340.20 MATERIAL OVER AND UNDER ACCRUALS (Cont'd)

On the annual Trustees' Financial Summary submitted to OPI and on financial statements presented in accordance with GAAP, the district would report the balance of revenue source 6100-Material Prior Period Revenue Adjustments as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current revenues reported for the fund.

5-0350.00 EXPENDITURE REFUNDS

5-0350.10 DEFINITIONS

"Refunds" occur when the district receives money back from previous payments. For example, if the district purchased equipment, paid for it, then decided to return the equipment due to defects and purchase different equipment from a different vendor, the vendor who originally received payment may refund the purchase price to the district.

"Expenditure Abatement" is a return or cancellation of all or part of a charge previously made. Abatements usually result in restoration of budget in expenditure accounts only when they occur during the same fiscal year as the expenditure; thereafter, they become sources of revenue to the fund.

5-0350.20 RECORDING EXPENDITURE REFUNDS

Refunds and rebates (e.g., rebates on Driver's Education cars or from Montana Power) should be deposited in the fund from which the original disbursement was made. If a refund or reimbursement originally paid from one fund is to be deposited to another fund, the district should discuss this with the county attorney or auditor. Refunds of current year expenditures are recorded as reductions of current expenditures. This has the effect of restoring the school district's spending authority in that fund in the amount of the refund. However, if the refunds of a prior year's expenditures are significantly large, GAAP require special accounting treatment as shown below.

Rarely will the refund of a prior year's expenditure be significantly large in relation to the total fund balance of the affected fund. However, when the amount is significant, GAAP requires it be recorded as an adjustment of the prior year's expenditures and be reported on financial statements as an adjustment to beginning fund balance.

What amount is considered "material" is somewhat discretionary and depends on the amount of fund balance and other components shown on the financial statements. As a general rule, when the refund is 5% or more of the anticipated ending fund balance of the affected fund, the district should consider whether the item is a material adjustment required to be recorded as a prior period adjustment. Contact your auditor or OPI for advice if needed.

To record the receipt of an expenditure refund/rebate for expenditures recorded in the CURRENT year:

Debit: 101	Cash	\$400
Credit: 802	Expenditures	\$400
Expenditure Subsidiary Ledger		
XXX-XXX-XXXX-XXX	Object used when the original expenditure was recorded(\$400)	

(To record a refund of a previous payment made in the current year.)

5-0350.20 RECORDING EXPENDITURE REFUNDS

To record the receipt of an IMMATERIAL expenditure refund/rebate for expenditures recorded in the PRIOR year:

Debit: 101	Cash	\$40
Credit: 402	Revenues	\$40
Revenue Subsidiary Ledger		
XXX-1900	Other/Miscellaneous Revenue	\$40

(To record an immaterial refund of a prior year expenditure.)

To record a MATERIAL refund/rebate received for expenditures recorded in a prior year:

Debit: 101	Cash	\$40,000
Credit: 402	Revenues	\$40,000
Revenue Subsidiary Ledger		
XXX-6100	Material Prior Period Revenue Adjustments	\$40,000

(To record the receipt of a material refund of a prior year's expenditures.)

On the annual Trustees' Financial Summary submitted to OPI and on financial statements presented in accordance with GAAP, the district would report the adjustment under revenue source 6100 as an adjustment to beginning fund balance of the affected fund. The amount would not be included in current revenues reported for the fund.

5-0360.00 PRIOR PERIOD EXPENDITURE ADJUSTMENTS

Immaterial adjustments of expenditures applicable to a prior year are recorded using a debit to a current expenditure account for an increase or a credit to 1900 Miscellaneous Revenue. Material adjustments of expenditures applicable to a prior year must be reported as adjustments to beginning fund balances in the year of correction.

Expenditures decrease the fund balance of the current year. If a district fails to record a material amount of expenditures in the current year, the ending fund balance of that year will be overstated. The beginning fund balance of the next year is also overstated. Likewise, if the district records a material expenditure which properly belongs in the next year, the ending fund balance (and the beginning fund balance of the next year) will be understated. For that reason, material adjustments of expenditures recorded in the prior year should be recorded as adjustments to beginning fund balance of the current year using entries in this section.

Adjustments to materially increase prior period expenditures are charged using a debit to 892 Prior Period Expenditure Adjustments. Adjustments to materially decrease prior year expenditures are recorded using a credit to revenue account 6100 Prior Period Revenue Adjustments. The adjustment to the revenue code is necessary because a credit adjustment to an expenditure code would artificially inflate the expenditure authority of the district by reducing expenditures of the current year.

Adjustments in the 892 and 6100 accounts are reported on the Trustees' Report and on GAAP financial statements as adjustments to the beginning fund balances of the affected funds. They are not reported as current revenues or expenditures.

5-0360.00 PRIOR PERIOD EXPENDITURE ADJUSTMENTS (Cont'd)

To record an expenditure applicable to the prior year: For example, assume the district had received a piece of equipment in June of the prior fiscal year, but did not record the expenditure in that year. In the current year, the district must record the adjustment to prior period expenditures.

Debit: 802	Expenditures	\$25,000
Credit: 620 or 101	Warrants Payable or Cash	\$25,000
Expenditure Subsidiary Ledger		
XXX-XXX-XXXX-892	Prior Period Expenditure Adjustments	\$25,000

(To record the payment for an expenditure which should have been recorded in the prior year. The charge to 892 must be within the budget of the fund. A budget transfer may be needed. The charge does not increase current expenditures. **NOTE: A small, or immaterial, prior year expenditure may be charged to a current expenditure line item.**)

To record the adjustment for an expenditure recorded in the prior year which should properly be recorded in the current year: For example, assume a copier purchased for \$19,000 was ordered and received in the prior year. The expenditure was accidentally recorded twice in the prior year. Assume the item was accrued as an expenditure and liability twice. Upon payment, the error is discovered and corrected using an adjustment to beginning fund balance using a the prior period revenue account.

Debit: 621	Accounts Payable (accrued two times)	\$38,000
Credit: 620 or 101	Warrants Payable or Cash	\$19,000
Credit: 402	Revenue	\$19,000
Revenue Subsidiary Ledger		
XXX-6100	Prior Period Revenue Adjustments	\$19,000

(To record the payment for goods received in the prior year. The expenditure should have been recorded in the prior year. Since the budget for the prior year is closed, the adjustment must use revenue 6100. **NOTE: A small, or immaterial adjustment may be credited to revenue code 1900 Miscellaneous Revenue.**)

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5-0400.00 ENCUMBRANCES

NOTE: OPI encourages, but does not require, the use of encumbrance accounting. Montana schools may either choose to: (1) Not record encumbrances, (2) Record encumbrances only at June 30, or (3) Record encumbrances continually during the year (i.e. encumber each purchase order).

5-0410.00 PURPOSE OF ENCUMBRANCE ACCOUNTING

Since budgets are the legal authority to spend money, it is important for school administrators to have accurate, up-to-date information on the status of budget balances at any given time. To have an accurate idea of the situation, knowing the amount spent to date is not enough. Districts must also know the amount committed to avoid overspending budgeted funds.

5-0410.10 DEFINITIONS

"Encumbrances" are commitments related to unperformed, legally binding contracts for the purchase of goods or construction in progress. Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts/purchase orders in process are completed. See section 5-0410.50, "VALID OBLIGATION CRITERIA."

"Encumbrance accounting" is used to set aside adequate spending authority to pay outstanding encumbrances. Encumbrance accounting is not complicated. In its simplest form, it means that when a purchase order is prepared, the budget balance in the appropriate account is checked to ensure that budget authority is available to spend. If the budget balance in the fund is adequate, the amount of the order is charged ("encumbered"), reducing the available budget balance. This entry reduces spending authority in the account to cover the order. When the invoice arrives and is paid, the encumbered amount is reversed and the amount of the invoice is recorded as an expenditure. At any point in time, the available budget balance in the account equals the appropriation (budgeted amount) less total expenditures and encumbrances.

Because encumbrance accounting is used to set aside spending authority for obligations when a budget will lapse on a certain date, **encumbrances are not needed in nonbudgeted funds, except to record obligations for grant funding on an award which lapses on a certain date.** If budget authority or grant spending authority carries into the next fiscal year, the district may choose not to record encumbrances. When the item is paid for in the next year, the expenditure would be recorded as a normal cash expenditure and charged to the budget of the current year.

5-0410.20 REPORTING EXPENDITURES--BUDGETARY AND GAAP BASIS

Montana law allows school districts to report encumbrances for construction in progress and personal property as expenditures for budgetary purposes (20-9-209, MCA). As a result, expenditures may be reported on the "GAAP basis" and on the "Budgetary basis."

For **"GAAP basis"** reporting purposes, an encumbrance is not considered an expenditure or a liability until the goods or services are received. As a result, "GAAP basis" expenditures include only cash expenditures and accrued expenditures. "GAAP basis" reporting will be addressed in future training sessions and updates to this accounting manual.

For **"Budgetary basis"** reporting purposes, encumbrances are reported as expenditures and as a fund balance Reserve for Encumbrances rather than a liability. As a result, "Budgetary basis" expenditures include cash expenditures, accrued expenditures, and encumbrances.

5-0410.30 LIST OF YEAR-END ENCUMBRANCES AND ACCRUALS

The district should develop a list showing the detail and amount of accrued expenditures and encumbrances by fund. A sample form is included with the Instructions to the Trustees' Financial Summary.

5-0410.40 VALID OBLIGATION CRITERIA

The district may encumber current year appropriations (budget) for valid obligations at June 30 if the encumbrance meets one of the following criteria: (ARMS 10.10.101)

- a. The costs of personal property, including materials, supplies, and equipment, ordered but not received may be encumbered if a valid purchase order was issued prior to June 30;
- b. The cost of commitments related to construction in progress may be encumbered if a legally binding contract was signed and effective or a valid purchase order was issued prior to June 30. If the contract is complete or virtually complete, the entire cost of the contract should be accrued.

NOTE: The criteria above **do not include contracts for services** other than construction. Districts which do not use a formal purchase order system during the year should use written purchase orders at year-end to properly document the validity of encumbrances for personal property items.

Purchase Orders

Purchase orders used to encumber the costs of goods at June 30 must be complete as to the items being purchased, show the price, be signed by the board-authorized purchasing officer and must be delivered or mailed to the vendor by June 30. OPI suggests that the board of trustees should set a reasonable purchase order cut-off date so that all orders may be processed in time to be encumbered by June 30. Copies of purchase orders must be retained as support documentation for encumbrances.

Clearing Prior Year Encumbrances

At year-end, a review should be made of all outstanding encumbrances to determine if they are still valid. Encumbrances for goods reported on the prior year's Trustees' Financial Summary must be liquidated (cleared) before June 30 of the current year. However, encumbrances related to construction contracts are not required to be cleared until the contract is completed or the contract is no longer valid. Journal entries for reversing encumbrances which are no longer valid are shown in section 5-0420.20, "LIQUIDATION OF OUTSTANDING ENCUMBRANCES."

5-0420.00 RECORDING ENCUMBRANCES

OPI recommends schools maintain their accounts on the budgetary basis during the year for budgetary control and annual budgetary reporting (i.e., Trustees' Report) purposes. Schools should adjust the amounts on the year-end closing workpapers to the GAAP basis to report GAAP basis expenditures on financial statements presented in accordance with GAAP.

The following examples show journal entries to record encumbrances on a budgetary basis.

To record an encumbrance during the year or at fiscal year-end: For example, assume the district has issued a purchase order for \$1500 of supplies but has not received the goods by June 30.

Debit:	803	Encumbrances	\$1500
Credit:	953	Reserve for Encumbrances	\$1500

(To record an encumbrance for a purchase order, contract, etc. The debit to Encumbrances above would be posted in the encumbrance field or column in the Expenditures Subsidiary Ledger to reduce the unencumbered budget balance.)

At fiscal year-end, to record outstanding encumbrances as expenditures: The encumbrances charged to expenditures must meet criteria 5-0410.50, "VALID OBLIGATION CRITERIA."

Debit:	802	Expenditures	\$1500
Credit:	803	Encumbrances	\$1500
Encumbrances Subsidiary Ledger			
XXX-XXX-XXXX-610	Supplies		(\$1500)

(To charge unliquidated encumbrances as expenditures.)

The Reserve for Encumbrances account, which remains on the books after closing and shows the amount of unliquidated encumbrances, will be reported on the Balance Sheet as a fund balance reserve.

When the encumbrance is paid in the next fiscal year:

Debit:	953	Reserve for Encumbrances	\$1500
Credit:	620 or 101	Warrants Payable or Cash	\$1500

(To record a payment for an obligation which was encumbered for budgetary purposes in the prior year. The amount debited to the reserve must be the amount originally encumbered.)

5-0420.10 DIFFERENCES BETWEEN ENCUMBRANCE AND INVOICE AMOUNTS

Encumbrances are often recorded based on estimates of the cost of goods or services being purchased. Therefore, when an invoice is received in the current fiscal year for items encumbered in the prior year, it might be slightly greater or less than the amount originally encumbered. The accounting procedure for recording the payment of the encumbrance depends on the relative size of the difference between the amount encumbered and the amount paid.

Immaterial, or small, differences are to be charged to a current expenditure account or credited to the miscellaneous revenues account in the year of payment.

If differences are significant or material adjustments to expenditures or revenues, GAAP require special accounting treatment. As a general rule, the district should consider the difference between the amount encumbered and the invoice amount "material" if it is 5% or more of the anticipated ending fund balance of the affected fund. Consult your auditor or OPI for help in determining whether a difference should be considered material. **Material differences** are to be charged to expenditure object 892 Prior Period Expenditure Adjustments or credited to 6100 Prior Period Revenue Adjustments in the year of payment. Adjustments to these accounts are shown as adjustments to the beginning fund balance on the Trustees' Financial Summary and GAAP financial statements. They are not included in current revenues and expenditures. Adjustments recorded in object 892 must fall within the total budget of the affected fund.

To record the payment for an encumbrance for which the invoice price is slightly higher than the amount encumbered: Charge the current expenditure account for the difference. For example, assume the district encumbered \$100 for equipment and the invoice received in the next year totalled \$105 including freight.

Debit: 953	Reserve for Encumbrances	\$100
Debit: 802	Expenditures	\$5
Credit: 620 or 101	Warrants Payable or Cash	\$105
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-XXX	Any appropriate object	\$5

(To record payment for equipment encumbered in the previous year for which the invoice slightly exceeds the original encumbrance amount.)

To record the payment for an encumbrance for which the invoice price is slightly less than the amount encumbered: Credit the current Revenue account for the difference. For example, assume the \$100 encumbrance was invoiced at \$95.

Debit: 953	Reserve for Encumbrances	\$100
Credit: 402	Revenues	\$5
Credit: 620 or 101	Warrants Payable or Cash	\$95
Revenues Subsidiary Ledger		
XXX-1900	Other/Miscellaneous Revenue	\$5

(To record payment for equipment encumbered in the previous year for which the invoice was lower than the original encumbrance amount.)

5-0420.10 DIFFERENCES BETWEEN ENCUMBRANCE AND INVOICE AMOUNTS (Cont'd)

To record the payment for an encumbrance for which the invoice cost is materially greater than the amount encumbered: For example, assume the district encumbered a purchase order for \$400 for textbooks. The invoice cost is actually \$40,000. The obligation was underencumbered in error. The excess expenditure must be charged to the current year's budget.

Debit: 802	Expenditures	\$39,600
Debit: 953	Reserve for Encumbrances	\$ 400
Credit: 620 or 101	Warrants Payable or Cash	\$40,000
Expenditures Subsidiary Ledger		
XXX-XXX-XXXX-640	Textbooks	\$39,600

(To record the payment for an encumbrance for which the invoice significantly exceeds the encumbered amount. The debit to the reserve is the amount originally encumbered. The credit to warrants payable or cash is the invoice amount.)

To record the payment for an encumbrance for which the invoice cost is materially less than the amount encumbered: For example, assume the district encumbered a \$30,000 purchase order for desks which have not been received by June 30. The vendor can only supply part of the order. The invoice is for \$300.

Debit: 953	Reserve for Encumbrances	\$30,000
Credit: 402	Revenue	\$29,700
Credit: 620 or 101	Warrants Payable or Cash	\$ 300
Revenue Subsidiary Ledger		
XXX-6100	Material Prior Period Revenue Adjustments	\$29,700

(To record the payment of an encumbrance for which the invoice cost is materially lower than the encumbered amount.)

5-0420.20 LIQUIDATION OF OUTSTANDING ENCUMBRANCES

Prior year encumbrances must be liquidated by June 30 of the following year.

To reverse immaterial prior year encumbrances which are outstanding but are no longer valid:

For example, assume the district encumbered a purchase order for \$1500 at the previous fiscal year-end. The vendor went out of business and the order will not be filled. The amount is not considered material to the fund's balance.

Debit: 953	Reserve for Encumbrances	\$1,500
Credit: 402	Revenues	\$1,500
Revenue Subsidiary Ledger		
XXX-1900	Other/Miscellaneous Revenue	\$1,500

(To reverse an immaterial prior year encumbrance which is no longer considered valid.)

To reverse material prior year encumbrances which are outstanding but are no longer valid:

Assume the district encumbered \$200,000 at the previous fiscal year-end for a construction contract to repair the roof. The repair is accomplished for only \$150,000. The unliquidated encumbrance must be removed from the books.

Debit: 953	Reserve for Encumbrances	\$200,000
Credit: 620 or 101	Warrants Payable or Cash	\$150,000
Credit: 402	Revenues	\$ 50,000
Revenue Subsidiary Ledger		
XXX-6100	Material Prior Period Revenue Adjustments	\$ 50,000

(To reverse a material prior year encumbrance which is no longer considered valid. The entire amount encumbered is removed from the books, the cash payment is recorded, and the excess is recorded as a prior period revenue adjustment. The balance of the 6100 account is shown on the Trustees' Financial Summary as an adjustment to beginning fund balance and is not included in current revenue.)

5-0500.00 INTERFUND TRANSACTIONS

5-0510.00 INTRODUCTION

Section 20-9-208, MCA, prohibits transfers between funds unless specifically provided by law. This section discusses how to account for each transfer allowed by law. The method used for accounting for a transaction between funds depends on the nature of the transaction. There are **five types of interfund transactions**:

- a. Quasi-External Transactions—business-type transactions between governmental fund types and proprietary fund types.
- b. Residual Equity Transfers—nonrecurring or nonroutine transfer of equity between funds. Equity may or may not be returned by recipient fund.
- c. Operating Transfers—routine transfers for which there is no intent to return transferred funds to the originating fund.
- d. Reimbursements—used whenever revenues/other financing sources or expenditures/other financing uses applicable to a fund are originally recorded in another fund.
- e. Interfund Loans—made whenever there is full intent for the borrowing fund to repay the lending fund.

Interfund transactions should generally be made with a journal voucher and letter to the county treasurer to explain the transaction instead of by issuing a warrant from one fund to another. This section explains the use and accounting methods for recording each type of interfund transaction.

5-0520.00 RECORDING INTERFUND TRANSACTIONS

5-0520.10 QUASI-EXTERNAL TRANSACTIONS

Quasi-External Transactions are used in cases where one fund type buys services or products from another fund type. Transactions that would normally be treated as revenues, expenditures, or expenses if they involved organizations external to the school district should be accounted for as revenues, expenditures, or expenses in the funds involved in a quasi-external transaction. A quasi-external transaction should be reported as revenue in the receiving fund and expenditure/expense in the paying fund.

Examples of quasi-external transactions in school districts are:

- Payment in lieu of taxes from an enterprise fund to the General Fund.
- Internal Service Fund billings to departments.
- Payment of health insurance premiums from General and Special Revenue Funds to a self insurance Internal Service Fund.

5-0520.10 QUASI-EXTERNAL TRANSACTIONS (Cont'd)

To record payment to another fund for services provided to the fund in a business-type transaction: For example, assume an internal service fund provides central computer services and the General Fund is charged \$400 for services provided for central administration purposes.

Internal Service Fund (7X)

Debit: 101	Cash	\$400
Credit: 402	Revenues	\$400

Revenues Subsidiary Ledger

X7X-1970	Services Provided to Other Funds	\$400
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(To record the receipt of payment for services billed to another fund of the district. **NOTE: Revenue source 1970 is used only in Internal Service Funds;** other funds would record the revenue source code applicable to the type of revenues received.)

General Fund (01)

Debit: 802	Expenditures	\$400
Credit: 101	Cash	\$400

Expenditures Subsidiary Ledger

X01-XXX-XXXX-XXX	Any appropriate expenditure object	\$400
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(To record payment for services provided by the Internal Service Fund.)

5-0520.20 RESIDUAL EQUITY TRANSFERS (RET)

Residual Equity Transfers are nonrecurring or nonroutine transfers of equity between funds. Transfers are made by recording a Residual Equity Transfer out of the surrendering fund and a Residual Equity Transfer into the receiving fund. The district must notify the County Treasurer of the reason for and the amount of the transfer.

Residual Equity Transfers allowed by Montana law and school accounting policy are as follows:

- a. When all bonds and bond interest of any school district have been paid, all moneys remaining and amounts receivable in the debt service fund shall be transferred by the county treasurer and the school district to the general fund of the school district (20-9-443, MCA).
- b. When establishing the nonoperating fund, the trustees shall close each fund except for the debt service fund and miscellaneous programs fund to the non-operating fund (20-9-505, MCA).

5-0520.20 RESIDUAL EQUITY TRANSFERS (Cont'd)

- c. Any money realized by the sale of bonds and remaining to the credit of the building fund after the full accomplishment of the purpose for which the bonds were sold shall be transferred to the debt service fund to be used for the redemption of bonds of such issue (20-9-508(3), MCA).
- d. Whenever the end-of-the-year cash balance of a lease or rental agreement fund is more than \$10,000, (or \$20,000 for a K-12 district) such cash balance in excess of \$10,000 shall be transferred to the general fund of the district. The term cash balance shall be construed to mean fund balance for the purposes of determining the proper amount of the residual equity transfer to the general fund (20-9-509, MCA).
- e. Whenever the trustees of a district maintaining a bus depreciation reserve fund dispose of all buses and consider it to be in the best interest of the district to transfer any portion or all of the bus depreciation reserve cash balance to any other fund maintained by the district, it shall submit such proposition to the electors of the district. If the transfer is approved by the voters, the district shall record the transfer as a residual equity transfer (20-10-147(4), MCA).
- f. Whenever the trustees determine a fund used by the district is obsolete or no longer needed, they may close the fund into the General Fund (20-9-201[3], MCA). Note that no fund should be closed which might be used again within five (5) years, since closing a fund requires considerable effort for the district clerk and county treasurer.

To record a residual equity transfer: For example, to record a residual equity transfer of the balance of \$370 remaining in a Debt Service Fund to the General Fund after bonds and interest have been paid:

Debt Service Fund (50)		
Debit: 802	Expenditures	\$370
Credit: 101	Cash	\$370
Subsidiary Ledger		
X50-999-9999-971	Residual Equity Transfers Out	\$370
(To record transfer of remaining funds to the General Fund.)		
General Fund (01)		
Debit: 101	Cash	\$370
Credit: 402	Revenues	\$370
Subsidiary Ledger		
X01-9710	Residual Equity Transfers In	\$370
(To record transfer of remaining funds from the Debt Service Fund.)		

5-0520.30 OPERATING TRANSFERS

GAAP defines operating transfers as legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended. Unlike quasi-external transactions, operating transfers are not reported as revenues or expenditures/expenses. Between funds of the same district, the transfer should be recorded using other financing sources account 5300 Operating Transfers from Other Funds in the receiving fund, and using other financing uses, function 6100, and object 910 Operating Transfers Out in the paying fund.

The operating transfers allowed by Montana law are as follows:

- a. Section 20-9-512, MCA, authorizes the Trustees to transfer money from the General Fund, within the adopted budget, to establish and maintain a Compensated Absences Fund (21). Such reserve shall not exceed 30% of the total school district liability for accumulated sick leave and vacation leave of non-teaching and administrative employees on June 30 of the current fiscal year. The high school district and elementary district must maintain separate Compensated Absences Funds. If the ending fund balance in the Compensated Absences Fund (21) on June 30 exceeds 30% of the maximum liability on June 30 of the current year, the excess balance is to be transferred back to the general fund. Refer to sections 6-0200, and 5-0500 of the School Accounting Manual.
- b. Trustees may transfer unused employer contributions for self-insurance group coverage to the Self-Insurance - Health Fund (78) to be used to offset losses or increase the fund's reserve (2-18-703, MCA).
- c. Section 20-9-515, MCA, authorizes the Trustees to transfer money from the General Fund end-of-the-year fund balance, within the adopted budget, to establish a Litigation Reserve Fund (27) only when litigation is pending against the district. Upon conclusion of the litigation, the balance must be transferred back to the General Fund and used to reduce the BASE budget levy requirement pursuant to 20-9-141, MCA.
- d. When acting as the prime agency for an interlocal agreement, Section 20-9-703, MCA, authorizes the Trustees to transfer money from any fund, except for Miscellaneous Programs Fund 15, to the interlocal cooperative fund (82). Transfers from Fund 15 must be approved by the Office of Public Instruction.

To record an operating transfer between funds: For example, assume the district transfers \$600 from the General Fund to the Compensated Absences Fund at fiscal year-end.

General Fund (01)

Debit: 802	Expenditures	\$600
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Credit: 101	Cash	\$600
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Expenditures Subsidiary Ledger

X01-XXX-6100-910	Other Financing Uses-Operating Transfers Out	\$600
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Compensated Absences Fund (21)

Debit: 101	Cash	\$600
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Credit: 402	Revenues	\$600
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Revenues Subsidiary Ledger

X21-5300	Other Financing Sources-Transfers from Other Funds	\$600
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(To record operating transfer from the General Fund.)

NOTE: Charges to expenditure object 910-Operating Transfers and income credited to revenue source 5300-Operating Transfers from Other Funds should be the same amount at all times.

5-0520.40 REIMBURSEMENTS

Expenditures should be reflected only once for the government as a whole. Expenditures/expenses which were originally recorded in one fund but which are applicable to another fund are corrected as reimbursement transactions. If the reimbursement is made during the fiscal year in which the transaction occurred, the fund receiving the reimbursement records a reduction of expenditures and increase of cash, and the reimbursing fund records an expenditure and a reduction of cash. If the reimbursement is made in the fiscal year after the year the original expenditure was recorded (i.e. the books are closed), the fund receiving reimbursement records an increase in cash and an increase of miscellaneous revenue, and the reimbursing fund records a reduction of cash and a current expenditure. If the amount is material, the reimbursing fund records a prior period expenditure adjustment instead of a current expenditure.

The district must also send notification to the county treasurer that the cash must be moved between funds and the reason the transaction must be made. All district transactions, including reimbursements, must be properly documented in the accounting records of the district.

Examples of situations involving reimbursements are:

- Correcting a coding error; for example, an expenditure paid from a special revenue fund should have been charged against the general fund;
- Distributing costs to proper funds after originally paying from a fund.

To record a reimbursement of current year expenditures: For example, assume an expenditure of \$25 was incorrectly recorded in the Transportation Fund instead of the General Fund. The Transportation Fund must reimburse the General Fund. The expenditure must be moved from the Transportation Fund to the General Fund.

Transportation Fund (10)

Debit: 101	Cash	\$25
Credit: 802	Expenditures	\$25

Expenditure Subsidiary Ledger

X10-XXX-XXXX-XXX	Any appropriate expenditure object	\$25
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(To abate (reduce) expenditures which should be recorded in the General Fund and receipt of cash moved from that fund.)

General Fund (01)

Debit: 802	Expenditures	\$25
Credit: 101	Cash	\$25

Expenditures Subsidiary Ledger

X01-XXX-XXXX-XXX	Any appropriate expenditure object	\$25
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(To record the expenditure which should be recorded in this fund.)

To record the reimbursement of an immaterial expenditure recorded in the prior year: For example, assume the district improperly charged \$300 to the Miscellaneous Programs Fund in the prior year, and now needs to reimburse the deficit with General Fund money.

Miscellaneous Programs Fund (15)

Debit: 101	Cash	\$300
Credit: 402	Revenues	\$300

Revenue Subsidiary Ledger

X15-1900	Miscellaneous/Other Revenues	\$300
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(To record the immaterial decrease in prior expenditures, the district records miscellaneous revenue for the amount incorrectly charged to the Miscellaneous Programs Fund.)

5-0520.40 REIMBURSEMENTS (Cont'd)

General Fund (01)

Debit: 802	Expenditures	\$300
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Credit: 101	Cash	\$300
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Expenditures Subsidiary Ledger

X01-XXX-XXXX-XXX	Any appropriate expenditure object	\$300
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(To record the reimbursement of another fund for expenditures of a prior year which should have been paid from the General Fund. Immaterial amounts are charged to a current expenditure line item.)

To record the reimbursement of a material expenditure recorded in the prior year: For example, assume the district improperly charged \$30,000 to the Miscellaneous Programs Fund in the prior year, and now needs to reimburse the deficit with General Fund money.

Miscellaneous Programs Fund (15)

Debit: 101	Cash	\$30,000
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Credit: 402	Revenues	\$30,000
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Revenue Subsidiary Ledger

X15- 6100	Material Prior Period Revenue Adjustments	\$30,000
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(To record the material decrease in prior expenditures, the district records a prior period revenue adjustment for the amount incorrectly charged to the Miscellaneous Programs Fund. The adjustment recorded in the **6100** account will be shown on the Trustees' Financial Summary and on GAAP financial statements as an adjustment of beginning fund balance. Reimbursements which involve grants should be identified using project reporters.)

General Fund (01)

Debit: 802	Expenditures	\$30,000
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Credit: 101	Cash	\$30,000
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Expenditures Subsidiary Ledger

X01-XXX-XXXX- 892	Material Prior Period Expenditure Adjustments	\$30,000
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(To record reimbursement of another fund for expenditures of a prior year which should have been paid from the General Fund. Adjustments recorded in the **892** account will be shown on the Trustees' Financial Summary and on GAAP financial statements as an adjustment to beginning fund balance and will not be included in current expenditures. Charges to **892** are subject to the total budget limitations of the fund.)

5-0520.50 INTERFUND LOANS

Interfund Loans are made whenever there is full intent for the borrowing fund to repay the lending fund. If there is no intent for repayment, then a residual equity transfer, if it can be legally made, should be recorded. Interfund loans are commonly used to solve temporary cash flow problems that can be encountered by a fund, and are preferable over outside lending sources because of interest savings for the school district. See Section 5-1000 for Short-Term Loans.

Recording interfund loans is suggested, but not required at this time, to clear cash overdrafts for funds at June 30. The entries to record the loan would be made at June 30 on the books of the district only and would be reversed immediately at the beginning of the next fiscal year. This practice allows the district to report the true cash position of the district at June 30 rather than showing negative cash balances in overdrawn funds. Recording the entries only on the district's records avoids the difficulty of affecting a change on the county treasurer's records.

Interfund loans should be coded using 160 Interfund Loans Receivable and 160 Interfund Loans Payable. Due to Other Funds and Due from Other Funds **should not be used** for interfund loans; these accounts should reflect receivables or payables between funds for goods or services.

To record an interfund loan: For example, assume the Transportation Fund has a June 30 negative cash balance of \$1200 and the General Fund has a cash surplus.

General Fund (01)

Debit: 160	Interfund Loans Receivable	\$1200
Credit: 101	Cash	\$1200

(To record an interfund loan to another fund. The county treasurer does not record this loan.)

Transportation Fund (10)

Debit: 101	Cash	\$1200
Credit: 601	Interfund Loans Payable	\$1200

(To record interfund loan from another fund. The county treasurer does not record this loan.)

After recording the entry, the Transportation Fund cash balance shown on the financial statements would be zero and the fund's balance sheet would show an interfund loan payable (liability).

At the beginning of the next fiscal year, to reverse the entries above to remove the loan from the district's books:

Transportation Fund (10)

Debit: 601	Interfund Loans Payable	\$1200
Credit: 101	Cash	\$1200

(To reverse the interfund loan from another fund which was recorded at the previous fiscal year-end. This entry reduces the liability on the books to zero. The "loan" is actually a temporary use of another fund's

5-0520.50 INTERFUND LOANS (Cont'd)

balance to cover warrants issued on a budgeted fund which has an insufficient cash balance and is taken care of at the county treasurer's level. The county treasurer does not record this loan entry.)

General Fund (01)

Debit: 101	Cash	\$1200
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Credit: 160	Interfund Loans Receivable	\$1200
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(To reverse the interfund loan to another fund which was recorded at the previous fiscal year-end. This entry reduces the receivable to zero. The county treasurer does not record this entry.)